

August 31, 2001

The Honorable Byron L. Dorgan
Chairman, Senate Appropriations Committee
Washington, DC 20510

Dear Chairman Dorgan:

The IRS Oversight Board is writing this letter to comment on recent action by the Senate Appropriations Committee. This action, marking up the Treasury Postal and General Government Appropriations Bill, indicated that the Appropriations Committee considered funding issues raised by the IRS Oversight Board. However, two issues that have emerged after the IRS Oversight Board submitted an Interim Report on budget issues now threaten to erode the budget increases you were seeking. These issues are the 4.6 percent pay raise for federal employees and additional effort to fully implement the advance tax rebate program.

The bill, as marked up by the full Appropriation Committee, provides an additional \$3 million for operational costs and an additional \$23 million for the Business Systems Modernization (BSM) program. While the IRS Oversight Board had recommended a larger increase, the higher appropriation level signified to the Board that the Senate was sensitive to budget needs for the IRS. However, the original Administration request, as well as the budget recommendations of the IRS Oversight Board, was based on a 3.6 percent pay raise for federal workers. A 4.6 percent pay raise, as is now likely, will result in an additional \$43 million in costs to the IRS in FY2002. Additionally, costs of \$25 million for the tax rebate program, which were not contained in the Administration request or the IRS Oversight Board budget recommendation, will be incurred in FY2002 to administer this one time program.

Therefore, although the Appropriations Committee approved \$3 million more in operational budget, the additional funds are earmarked for specific programs, and the impact of the 4.6 percent pay raise and the tax rebate program will be to add \$68 million of unplanned costs to IRS operations in FY2002.

The IRS Oversight Board has asked the IRS to estimate the effect of the \$68 million decrease. The IRS has provided the Oversight Board with three primary options for allocating this decrease, which are shown below. Each activity presented shows the FTE reduction that would occur, based on estimated productivity rates, if the reduction was allocated solely to that activity. Alternatively, the decrease can be proportionately allocated to all three activities, which would mitigate the effect on any one activity but would cause a more widespread impact. The impact of the reduction may also be spread among other activities, but these three were chosen to illustrate

how the decrease might impact some of IRS' larger programs. The full impact on any one of these three activities would be:

<u>Activity</u>	<u>FTE Reduction Equivalent to a \$68 Million Decrease</u>
Toll-free telephone staffing	1329
Small Business/Self Employed (SB/SE) Field Collection	903
SB/SE Field Examination	876

The performance decrease associated with these FTE reductions, based on expected FY2002 productivity rates, is:

<u>Activity</u>	<u>Original Plan</u>	<u>Revised Plan</u>	<u>Percent Reduction</u>
Toll-free telephone calls answered	33,749,888	24,897,786	26.2
SB/SE Field Collection TDA actions	862, 465	697,465	19.1
SB/SE Field Examinations	341,137	316,137	7.3

The IRS Oversight Board believes the IRS is not providing taxpayers with the service levels they expect and need, and is seeking both short- and long-term improvement in IRS performance. Long-term performance improvement will be obtained primarily through the IRS' Business Systems Modernization program. In addition, the IRS Oversight Board believes that the IRS is initiating activities in FY2002 to improve short-term performance, such as implementation of balanced measures, process improvements, and accountability for performance. However, the Board also recognizes that performance and staffing levels are directly related, and staffing decreases at this juncture will only serve to worsen already low performance levels. Your support in conference for higher funding levels would help the IRS deliver better performance to taxpayers in FY2002.

Thank you for consideration in this most important matter. If you desire to discuss this matter further, please call me at 202-622-2581, or have your staff call Chuck Lacijan, Staff Director for the IRS Oversight Board, at 202-622-0905.

Sincerely,

Larry R. Levitan
Chairman, IRS Oversight Board